

State of California — Franchise Tax Board

Supplemental Guidelines to California Adjustments

FTB Pub.1001

General Information

In general, California did not conform its law to changes made to the Internal Revenue Code (IRC) by the federal Revenue Reconciliation Act of 1993 (Public Law 103-66). California legislation during 1994 and 1996 did adopt a few specific provisions of the 1993 federal changes. All other references in these guidelines are to the IRC as it existed on **January 1, 1993**.

Purpose

Use these guidelines to make adjustments to federal adjusted gross income that are necessary because of current year or prior year differences between California and federal law. Generally, you report these adjustments directly on Schedule CA (540), California Adjustments — Residents (or Schedule CA (540NR), California Adjustments — Nonresidents or Part-Year Residents).

If you are required to make multiple adjustments for any one line on Schedule CA (540 or 540NR), attach a schedule to your return summarizing these adjustments.

In some cases you need to complete other forms or schedules to figure the adjustment to carry to the Schedule CA (540 or 540NR). See your tax booklet for information about ordering forms.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
Wages, Salaries, Tips, etc.		
• Military pay	Special rules apply to active duty military pay. Note: In 1996, federal tax rules changed for military in a combat zone. Legislation made California rules the same as federal.	Get FTB Pub. 1032 for more information.
• Sick pay received under the Federal Insurance Contributions Act and Railroad Retirement Act	California excludes from income the sick pay received under these Acts.	Enter qualifying sick pay included in federal income on Schedule CA (540 or 540NR), line 7, column B.
• Income exempted by U.S. treaties	Income exempted by treaty under federal law may be excluded for California only if the treaty specifically excludes the income for state purposes.	Enter the amount excluded from federal income on Schedule CA (540 or 540NR), line 7, column C.
• Employee income exclusions for ridesharing programs	Current federal law provides an income exclusion for the value of parking provided to an employee up to \$165 per month and for transit passes provided to an employee up to \$65 per month. California law provides an income exclusion (for years beginning on or after 1/1/88) for compensation or the fair market value of other benefits (except for salary or wages) received for participation in a California ridesharing arrangement such as: commuting in a third-party vanpool, a private commuter bus, a subscription taxipool and for monthly transit passes provided for employees and their dependents. The exclusion is not available for passes for dependents who are elementary or secondary school students.	Enter the amount of ridesharing benefits received and included in federal income on Schedule CA (540 or 540NR), line 7, column B.
• Moving expense reimbursements	Under federal law, reimbursements made by an employer for moving expenses incurred after December 31, 1993 are considered excludible fringe benefits and are not included in wages on Form W-2. California conforms to this provision beginning with tax year 1996. However, if you received reimbursement in 1996 for moving expenses incurred and not deducted before 1996, the reimbursement must be included in wages, and the expenses may be taken as an itemized deduction.	For expenses incurred before 1996 but reimbursed during 1996, get the 1995 form FTB 3596, California Moving Expenses, for more information and to figure the California moving expense deduction.
Taxable Interest Income		
• Non-California bonds:		
1) United States	Federal law requires including in gross income the interest earned on federal bonds (U.S. obligations). California does not tax this interest income. Note: The following are not considered U.S. obligations for California purposes: Federal National Mortgage Association (Fannie Mae); Government National Mortgage Association (Ginnie Mae); or Federal Home Loan Mortgage Corporation (Freddie Mac).	Enter amount of federal bond interest included in federal income on Schedule CA (540 or 540NR), line 8, column B.
2) Other states	Federal law does not tax interest from state or local bonds. California taxes the interest from non-California state and local bonds.	Enter the interest from non-California state or local bonds on Schedule CA (540 or 540NR), line 8, column C.
3) Poland	Bonds issued by Poland are exempt from below market interest rules under federal law. California has no similar provision.	Enter the interest from bonds issued by Poland on Schedule CA (540 or 540NR), line 8, column C.
• Loans made to a business located in an enterprise zone, program area or the Los Angeles Revitalization Zone (LARZ)	Federal law does not allow a deduction for net interest income from loans made to a business located in an enterprise zone, program area or the LARZ. California law permits a deduction for the net interest income.	Use form FTB 3805Z, Enterprise Zone/Program Area Deduction and Credit Summary or form FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary. Transfer the net interest deduction from form FTB 3805Z or form FTB 3806 to Schedule CA (540 or 540NR), line 8, column B. Write "FTB 3805Z" or "FTB 3806" below the dotted line on Form 540 or Form 540NR, line 14.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
<ul style="list-style-type: none"> Merchant marine construction fund deposits by ship contractors 	Federal law does not tax the earnings on deposits made to a capital construction fund. California has no comparable provision.	Enter the amount excluded for federal purposes on Schedule CA (540 or 540NR), line 8, column C.
Dividend Income		
<ul style="list-style-type: none"> Exempt interest dividends 	Certain mutual funds are qualified to pay "exempt interest dividends" if at least 50% of their assets consist of tax-exempt government obligations.	Enter the excess of the California exempt interest dividend over the federal exempt interest dividend on Schedule CA (540 or 540NR), line 9, column B.
<ul style="list-style-type: none"> Controlled foreign corporation (CFC) 	California taxes CFC dividends in the year distributed rather than in the year earned.	Enter the amount of the CFC dividend on Schedule CA (540 or 540NR), line 9, column C.
<ul style="list-style-type: none"> Regulated investment company (RIC) 	California taxes the undistributed capital gain from a RIC in the year distributed rather than in the year earned.	Enter the distribution on Schedule CA (540 or 540NR), line 9, column C.
<ul style="list-style-type: none"> S Corporation 	Dividends from a federal S corporation that elects to be treated as a California C corporation are taxable to California.	Enter the amount of the dividend on Schedule CA (540 or 540NR), line 9, column C.
<ul style="list-style-type: none"> Distributions of pre-1987 earnings from S corporations 	Prior to 1987, California treated all federal S corporations as C corporations. So when a federal S corporation first becomes a California S corporation, its initial accumulated adjustments account (AAA) has a zero balance regardless of the federal AAA balance. If distributions from the S corporation exceed the California balance in the AAA, you have a distribution from pre-1987 earnings.	Enter distributions from pre-1987 earnings (or earnings in any later year that the corporation was a federal S corporation and a California C corporation) on Schedule CA (540 or 540NR), line 9, column C.
<ul style="list-style-type: none"> Noncash patronage dividend from farmers' cooperatives or mutual associations 	Federal law taxes the dividend in the year of receipt. California permits an election to include the dividend in gross income either when received or when redeemed. Once an election is made, this method must be followed unless a change in the method of reporting is approved by the Franchise Tax Board (FTB).	If you elect to include the dividend in the year of receipt, no adjustment is required. If you elect or elected to include the dividend in the year redeemed, enter the amount received in 1995 on Schedule CA (540 or 540NR), line 9, column B. Enter the amount redeemed in 1996 on Schedule CA (540 or 540NR), line 9, column C.
State Tax Refund		
<ul style="list-style-type: none"> State income tax refund 	Federal law includes the state income tax refund in income. California excludes the state income tax from income.	Enter the amount of state income tax refund included in federal income on Schedule CA (540 or 540NR), line 10, column B.
Alimony Received		
<ul style="list-style-type: none"> Alimony received by a non-resident alien 	Alimony which was not included on the federal return must be included on the California return.	Enter the amount not included in federal income on Schedule CA (540 or 540NR), line 11, column C.
Business Income or (Loss) — Depreciation, amortization and property expensing		
<ul style="list-style-type: none"> Income from a business, trade or profession conducted partially in California 	If a nonresident owns a business, trade or profession carried on within California that is an integral part of a unitary business carried on both within and outside California, the amount of such income having its source in California is determined in accordance with the provisions of the Uniform Division of Income for Tax Purposes Act.	Gross income from the entire business, trade or profession is included in the nonresident's adjusted gross income from all sources. The nonresident's California source business income is determined by a three factor apportionment formula (property, payroll and sales). Refer to Title 18 Cal. Code Reg. Section 17951.
<ul style="list-style-type: none"> Asset expense election (IRC Section 179) 	Federal law allows an expense election up to \$17,500 of the cost of certain business property in lieu of depreciation. California allows an expense election up to \$10,000. Beginning with tax year 1996, the following property placed in service after December 31, 1990, is no longer eligible for the election if it is: used outside the United States, used for providing lodging, used by tax-exempt organizations, used by government or used by foreign persons. Also ineligible are air conditioning or heating units. California does not conform to this provision. The difference is depreciated for California purposes.	Use form FTB 3885A to figure the necessary adjustment to make on Schedule CA (540 or 540NR).
<ul style="list-style-type: none"> MACRS recovery period for nonresidential real property 	For federal purposes, the recovery period for depreciation of non-residential real property increased from 31.5 years to 39 years. California did not conform to this provision.	Use form FTB 3885A to figure the depreciation adjustment to make on Schedule CA (540 or 540NR).
<ul style="list-style-type: none"> Depreciation of assets acquired prior to 1/1/87 	Federal law allowed the rapid write-off of tangible personal property and buildings over recovery periods which were shorter than economic useful lives under the Accelerated Cost Recovery System (ACRS). California law in general was not conformed to federal law. However, California did allow ACRS for certain residential rental property constructed in California on or after July 1, 1985 and before January 1, 1987.	Use form FTB 3885A to figure the adjustment to make on Schedule CA (540 or 540NR).

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<ul style="list-style-type: none"> Amortization of goodwill and certain other intangibles 	Property classified as IRC Section 197 property under federal law is also Section 197 property for California purposes. However, for Section 197 property acquired before January 1, 1994, the California basis as of January 1, 1994 must be amortized over the remaining federal amortization period.	Use form FTB 3885A to figure the adjustment to make on Schedule CA (540 or 540NR).
<ul style="list-style-type: none"> Business property moves into California 	Depreciation methods and useful lives of trade or business property must be acceptable to California.	If an unacceptable method was used before the move into California, use the straight-line method to compute the basis in the property.
<ul style="list-style-type: none"> Enterprise zone, program area and Local Agency Military Base Recovery Area (LAMBRA) business expense deduction 	Federal law has no comparable deduction. A California program area business may elect to immediately expense up to \$50,000 (depending on the year of designation) of the cost of qualified property. A California enterprise zone business or LAMBRA business may elect to immediately expense up to \$10,000 (depending on the year of designation) of the cost of qualified property. You may not take an IRC Section 179 deduction on any asset used to calculate the business expense deduction.	Complete form FTB 3885A, Part III and write "FTB 3885A" below the dotted line on line 14 of Form 540 or Form 540NR. Enter the R&TC Section 17252.5, Section 17265 or Section 17268 deduction on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column B.
<ul style="list-style-type: none"> LARZ business expense deduction 	Federal law has no comparable deduction. LARZ businesses may elect to expense 100% of qualified property.	Complete form FTB 3885A, Part III, line 3, column (a) and column (b). Then enter -0- in column (c) and column (f). Enter the R&TC Section 17266 deduction on Schedule CA (540 or 540NR) line 12, line 17 or line 18, column B.
<ul style="list-style-type: none"> Accelerated depreciation for property on Indian reservations 	Under federal law, certain property on Indian reservations placed in service after January 1, 1994 and before December 31, 2003 will be subject to special MACRS recovery periods that permit faster write-off of property. California did not conform to this provision.	Use form FTB 3885A to figure the depreciation adjustment to make on Schedule CA (540 or 540NR).
<ul style="list-style-type: none"> Pollution control facilities 	Both California and federal law provide for accelerated write-off of pollution control facilities. California law only allows the write-off of facilities located in California.	Enter the amortization for the California facilities on form FTB 3885A. Compare the California amortization to the federal amortization and enter the difference on Schedule CA (540 or 540NR), line 12 or line 17, column C.
<ul style="list-style-type: none"> Expenditure for tertiary injectants incurred in the crude oil industry 	Federal law allows a deduction for the cost of tertiary injectants which are part of a tertiary recovery system. California law allows a depreciation deduction if the tertiary injectant qualifies as property used in a trade or business or is held for the production of income.	Enter the amount of tertiary injectants deducted on your federal return on Schedule CA (540 or 540NR), line 12, column C. Attach a schedule reflecting the depreciation computation of tertiary injectants placed in service during 1996. Then complete form FTB 3885A.
<ul style="list-style-type: none"> Adjustments for reduced recovery periods for fruit bearing grapevines replaced in a California vineyard on or after January 1, 1992, as a result of phylloxera infestation. 	Federal law generally requires a 10-year recovery period for fruit bearing vines for purposes of accelerated cost recovery and a 20-year recovery period for those vines under an alternative depreciation system. California law allows 5 and 10-year recovery periods, respectively.	Attach a schedule reflecting the depreciation computation of grapevines placed in service on or after January 1, 1992. Then complete form FTB 3885A.
<ul style="list-style-type: none"> Water utility property 	Under federal law, water utility property that is an integral part of the gathering, treatment or commercial distribution of water and would otherwise have had a 20 year recovery period and any municipal sewer, will be depreciated over 25 years. The increased recovery period applies to property placed in service after June 12, 1996, other than property placed in service under a binding contract in effect before June 10, 1996. California does not conform to this provision and you must continue to use a 20 year recovery period.	Use form FTB 3885A to figure the depreciation adjustment to enter on Schedule CA (540 or 540NR).
Business Income or (Loss) — Adjustments to Basis or Business Deductions		
<ul style="list-style-type: none"> Donated agricultural products transportation credit 	Federal law has no comparable credit. Under California law, deductions are not allowed for the portion of expenses equal to the credit.	Enter on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column C, the portion of the deduction claimed on your federal return that was used to claim the California credit.
<ul style="list-style-type: none"> Manufacturers' investment credit 	Federal law has no comparable credit. Under California law, the basis of qualified property must be reduced by the amount of the credit in the year the credit is allowed.	Complete form FTB 3885A.
<ul style="list-style-type: none"> Clean fuel vehicles and refueling property 	The deduction for clean fuel vehicles and refueling property is not applicable for tax years beginning on or after 1/1/95.	Enter the amount deducted from federal income on Schedule CA (540 or 540NR), line 12, line 17, or line 18, column C. Then complete form FTB 3885A.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
<ul style="list-style-type: none"> Basis adjustment for sales or use tax credit for property used in an enterprise zone, program area, LARZ or LAMBRA 	Federal law has no comparable credit, but IRC Section 164(a) requires an increase in basis for the amount of sales and use tax paid. Under California law, depreciation is computed based on cost, without regard to the sales or use tax allowed as a credit. Federal and state basis will differ due to the increase in federal basis by the addition of the sales or use tax which is not included in the California basis due to the credit.	You may depreciate the cost in excess of the allowable credit. Complete form FTB 3885A, Part III.
<ul style="list-style-type: none"> Credit for employer-paid child care center and services 	Federal law allows a deduction for all ordinary and necessary trade or business expenses. Under California law, employers may claim a credit for establishing a child care program or contributing to a child care referral service. Deductions are not allowed for that portion of expenses equal to the amount of the credit. The basis of any child care facility must be reduced by the amount of the credit attributable to the facility. This adjustment must be made in the year the credit is allowed.	Enter 30% of the amount of deductions claimed on your federal return to operate a child care program or contribute to the referral service on Schedule CA (540 or 540NR), line 12, column C. Then complete form FTB 3885A.
<ul style="list-style-type: none"> Credit for employer-paid child care plan 	Federal law allows a deduction for all ordinary and necessary trade or business expenses. Under California law, employers and building owners may claim a credit of 30% of their contributions to a qualified care plan made on behalf of any dependent under the age of 12 of the employer's California employee. Deductions are not allowed for that portion of the expenses which is equal to the amount of the credit. If the contribution to the plan is used at a facility owned by the employer, the basis of any child care facility must be reduced by the amount of the credit attributable to the facility. This adjustment must be made in the year the credit is allowed.	Enter 30% of the amount of deductions claimed on your federal return for costs paid for contributions to a qualified care plan made on behalf of a California employee's dependent(s) under the age of 12 on Schedule CA (540 or 540NR), line 12, column C. Then complete form FTB 3885A.
<ul style="list-style-type: none"> Enhanced oil recovery credit 	Federal law allows a credit for up to 15% of qualified costs attributable to qualified enhanced recovery oil projects. The basis of the enhanced recovery oil projects must be reduced by the amount of the credit. California conforms to this provision, except that only California projects qualify for the state credit.	Get form FTB 3546, Enhanced Oil Recovery Credit.
<ul style="list-style-type: none"> Disabled access credit 	Federal law allows a credit of 50% for the cost of making a business accessible to disabled individuals. No deduction is permitted for any amount for which a disabled access credit is allowed. California conforms to this provision, but eligible expenditures are those that do not exceed \$250. Since the credit is 50% of eligible expenses, the maximum credit is \$125.	Get form FTB 3548, Disabled Access Credit.
<ul style="list-style-type: none"> Indian employment credit 	Under federal law, a nonrefundable credit is available to employers for certain wages and health insurance costs paid or incurred by the employer after January 1, 1994 for certain fulltime or part-time employees who also are enrolled members of an Indian tribe or are spouses of enrolled members. California did not conform to this provision.	Enter the amount of business expense denied under federal law on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column B.
<ul style="list-style-type: none"> Abandonment or tax recoupment fees for open-space easements and timberland preserves 	Federal law allows a deduction for expenses incurred in a trade or business or held for the production of income. California denies a deduction for fees paid by California property owners on termination of open-space easements or timberland preserve status.	Enter the amount of fees incurred and deducted on your federal return on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column C.
<ul style="list-style-type: none"> Indirect political contributions 	Federal law prohibits a deduction of expenses for advertising in a political publication or admission to a political event when the proceeds benefit a political party or candidate. California has no similar provision.	Enter the amount of these expenses you incurred on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column B.
<ul style="list-style-type: none"> Enterprise zone, program area LARZ and LAMBRA hiring credits 	Federal law allows a deduction for all ordinary and necessary trade or business expenses. Under California law, employers may claim an enterprise zone hiring credit, program area hiring credit, LARZ hiring credit or LAMBRA hiring credit. Deductions are not allowed for the portion of the wages upon which the credit is based.	Enter the amount of wages (from form FTB 3805Z, or form FTB 3806 or form FTB 3807) equal to the amount of your California credit on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column C.
<ul style="list-style-type: none"> Club dues or payments made to a club which restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry or national origin 	Federal law does not allow a deduction for dues paid or incurred for all types of club memberships, including airline and hotel clubs, after December 31, 1993. California law does not have a similar provision. California does not allow any payments whether for dues, goods or services made to a club which restricts membership or the use of its services or facilities on the basis of age, sex, race, religion, color, ancestry or national origin.	Enter the amount of qualifying club dues on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column B. If you made payments to a club that discriminates and deducted them on your federal return, enter the amount of the payments on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column C.

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<ul style="list-style-type: none"> Real Estate Professionals – Material participation in a rental real estate activity 	Beginning with the 1994 tax year and for federal purposes only, rental real estate activities of persons in real property business are not automatically treated as passive activities. California did not conform to this provision and these activities are still considered passive under California law.	To figure the adjustment to make on Schedule CA (540 or 540NR), line 17, use form FTB 3801 and include these activities when completing the California Worksheet and the California Adjustment Worksheet in the instructions for form FTB 3801.
<ul style="list-style-type: none"> Research credit 	Federal law allows a credit for research expenses and requires that the deduction for research expenses be reduced by the amount of the credit allowed. California conforms to federal law, but requires the amount of research expenses to be reduced by the amount of the California credit.	Enter the amount of research expenses deducted on your federal return on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column C. Enter the amount of California research expenses after reduction for California research credit on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column B.
<ul style="list-style-type: none"> Denial of deduction for lobbying expenses 	Federal law prohibits any deduction under IRC Section 162 for any amount paid or incurred in connection with (1) influencing federal or state legislation or (2) any communication with certain covered federal executive branch officials in an attempt to influence the official actions or positions of such officials. California did not conform to this provision.	Enter the amount of lobbying expenses prohibited by federal law, on your California return on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column B.
<ul style="list-style-type: none"> Property for which a public utility provided an energy conservation subsidy on or after January 1, 1995 	Federal law allows an exclusion from income for any subsidy provided directly or indirectly by a public utility for the purchase or installation of any energy conservation measure. The adjusted basis of the property must be reduced by the amount excluded from income. California does not conform for amounts received after December 31, 1994.	Enter the amount excluded from federal income on Schedule CA (540 or 540NR), line 12, line 17 or line 18, column C. Complete form FTB 3885A.
Capital Gains and Losses		
<ul style="list-style-type: none"> Gain on sale or disposition of a qualified assisted housing development to low-income residents or to specified entities who maintain housing for low-income residents 	Federal law does not allow special treatment on gains related to the sale of certain assisted housing. California law permits the deferral of such gain, under certain conditions, if the proceeds are reinvested in residential real property (other than a personal residence) within two years of the sale.	Enter the transaction on California Schedule D, line 1 and in column (e) enter “0- R&TC Section 18041.5.” Reduce the basis of the replacement property by the amount of gain deferred. Attach a schedule to your return reflecting computation of basis in the replacement property, or a statement indicating your intent to replace within the replacement period.
<ul style="list-style-type: none"> Gain on certain vessels transferred to and exchanged with the Maritime Administration and gain or loss in connection with construction of new vessels 	Federal law allows nonrecognition of gain in connection with an exchange or transfer of obsolete vessels to the Maritime Administration, and recognition of gain or loss in connection with the construction of new vessels. California law has no similar provision.	Report transactions involving the sale or exchange of such vessels on California Schedule D, line 1. The full amount of gain or loss should be reflected in column (d) or column (e).
<ul style="list-style-type: none"> Gain on sale of personal residence where depreciation was allowable 	Federal gain on the sale of a personal residence may differ from the California gain due to differences in the amount of depreciation allowed or allowable.	Report gain on the sale of a personal residence on California Schedule D, line 1, column (e). Cost or other basis plus expense of sale must reflect adjustment for depreciation allowed or allowable for California purposes.
<ul style="list-style-type: none"> Undistributed capital gains for regulated investment company (RIC) shareholders 	Federal law requires certain undistributed capital gains reported on federal Form 2439 to be included in the gross income of the mutual fund shareholder and allows a tax credit for the capital gains tax paid by the RIC. California has no similar provision.	Do not enter the amount of undistributed capital gains on California Schedule D.
<ul style="list-style-type: none"> Gain or loss on sale of property inherited before January 1, 1987 	Federal gain or loss may differ from the California gain or loss due to differences in the basis of property. For more information, get FTB Pub. 1039, Basis of Property-Decedent and Surviving Spouse. For property inherited after January 1, 1987, the California basis and the federal basis are the same.	Report the amount of California capital gains and losses on California Schedule D.
<ul style="list-style-type: none"> Capital loss carrybacks 	Federal law allows a deduction for carrybacks of certain capital losses. California has no similar provision.	Report the amount of California capital gains and losses on California Schedule D.
<ul style="list-style-type: none"> Rollover of gain from publicly-traded securities into specialized small business investment companies 	Federal law permits an election to rollover capital gain realized from the sale of publicly-traded securities where the taxpayer uses the proceeds from the sale to purchase common stock or a partnership interest in a specialized small business investment company without paying tax on the gain. California has no similar provision.	Report the gain on the sale of the publicly-traded securities on California Schedule D, line 1, column (e).

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Other Gains or Losses		
<ul style="list-style-type: none"> Basis differences of business property. 	The California basis of other assets may be different than the federal basis due to differences between California and federal law, which may affect the gain or loss on disposition.	Get Schedule D-1, Sale of Business Property, to figure the adjustment to make on Schedule CA (540 or 540NR).
<ul style="list-style-type: none"> Election not to recognize gain 	Under federal law, a taxpayer can elect not to recognize the gain on business property that was involuntarily converted in connection with a disaster declared by the President after December 31, 1994 if replacement property is acquired within the appropriate time period. The replacement property is not restricted to property similar in use; it can be any tangible property held for productive use in a trade or business. California does not conform. Under California law, the election not to recognize the gain can only be made if the replacement property is similar in use.	Get Schedule D-1, Sale of Business Property, to figure the adjustment to make on Schedule CA (540 or 540NR).
IRA Distribution		
<ul style="list-style-type: none"> IRA basis adjustments. 	There may be significant differences in the taxable amount of the distribution depending on when the contributions were made, if you changed your residency status after you first began making contributions to your IRA, or if you made different deductions for California because of differences between your California and federal self-employment income.	Get Pub. 1005, Pension and Annuity Guidelines, for more information.
Pensions and Annuities		
<ul style="list-style-type: none"> Railroad retirement benefits. 	California does not tax railroad retirement benefits.	Enter on Schedule CA (540 or 540NR), line 16, column B the amount of railroad retirement benefits included in adjusted gross income on your federal return.
<ul style="list-style-type: none"> Employer-sponsored pensions and annuities (for annuity starting dates after 7/1/86 and before 1/1/87) if you elected to use the "three-year rule" for California 	Under federal law, no "three-year rule" is allowed for any individual whose annuity starting date is after 7/1/86. Under California law, an individual whose annuity starting date is after 7/1/86 and before 1/1/87 may elect to use the "three-year rule" if: (1) the employer paid part of the cost, and (2) during the three years from the date of the first annuity payment, the total amount receivable will equal or exceed the cost (investment) in the contract. No amounts received are taxed until the cost is recovered. Thereafter, all amounts you received are taxed.	If your annuity starting date was after 7/1/86 and before 1/1/87, AND you elected to use the three-year recovery rule for California, an adjustment is required. The adjustment must be computed by comparing the amount of pensions and annuities included on your federal return with the amount taxable by California. Enter the difference on Schedule CA (540 or 540NR), line 16, column C. Get FTB Pub. 1005, Pension and Annuity Guidelines, for more information.
Unemployment Compensation		
<ul style="list-style-type: none"> Unemployment compensation 	California does not tax unemployment compensation.	Enter on Schedule CA (540 or 540NR), line 19, column B the amount of unemployment compensation you included in adjusted gross income on your federal return.
Social Security Benefits		
<ul style="list-style-type: none"> Social security benefits and equivalent tier 1 railroad retirement benefits 	California does not tax social security benefits and equivalent tier 1 railroad retirement benefits.	Enter on Schedule CA (540 or 540NR), line 20, column B the amount of social security benefits and equivalent tier 1 railroad retirement benefits you included in adjusted gross income on your federal return.
Rents, Royalties, Partnerships, Estates, Trusts, etc.		
<ul style="list-style-type: none"> Income or loss from a federal S corporation that is a California C corporation 	Where a corporation has elected S status for federal purposes, but elects to retain C status for California, income or loss from such a corporation is included in gross income on the shareholder's federal return, but is not included on the California return. For federal purposes, distributions reduce basis in the stock, or are treated as capital gain or as dividends. For California purposes, distributions are taxed as dividend income, or reduce basis in the stock or are treated as capital gain.	If you reported income on federal Schedule E from an S corporation that is a California C corporation, enter the amount of such income on Schedule CA (540 or 540NR), line 17, column B. If you reported a loss from such a corporation, enter the amount of the loss deducted on your federal return on Schedule CA (540 or 540NR), line 17, column C. Enter the amount of taxable distributions on Schedule CA (540 or 540NR), line 9, column C.
<ul style="list-style-type: none"> Pass-through of income and deductions from partnerships, S corporations, estates and trusts 	Items of income and deduction from pass-through entities may differ due to various differences between federal and state law. Refer to federal Schedule K-1, or Schedule Q in the case of REMICs, to determine items of income and deduction for federal purposes. Refer to California Schedule K-1 to determine items of income and deduction from pass-through entities for California purposes.	Follow the instructions for Schedule K-1. Some items are reported directly on Schedule CA (540 or 540NR), line 17 and some items must be reported on other forms and schedules.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
<ul style="list-style-type: none"> Accumulation distribution to beneficiaries on which the required California taxes have not been paid by a trust 	Federal law taxes the accumulated income of a trust under IRC Sections 665-668. If a trust has a California resident trustee or beneficiary, the beneficiary is non-contingent, and the trust has not filed a California return and paid California tax as the income was accumulated, then the full amount of the accumulation distribution is taxable to the beneficiary in the year the accumulation distribution is received.	If you received a federal Schedule J (1041) and did not receive a California Schedule J (541), an adjustment is required because the trust did not file a California return and pay the tax as the income was accumulated. The accumulation distribution from federal Schedule J (1041), must be adjusted for California purposes. This information must be provided by the trustee.
<ul style="list-style-type: none"> Accumulation distribution to beneficiaries on which the trust was not required to pay California tax because the beneficiaries interest was contingent 	Federal law taxes the accumulated income of a trust under IRC Sections 665-668. If a trust has a California resident trustee or beneficiary, the beneficiary is contingent, and the trust has not filed a California return and paid California tax as the income was accumulated, then the beneficiary is entitled to the benefit of income averaging under the provisions of R&TC Sections 17745(b) and (d).	Use California form FTB 5870A, Tax on Accumulation Distribution of Trusts, Part II to compute the part of the accumulation distribution includable in your 1996 California adjusted gross income.
<ul style="list-style-type: none"> Amounts included in gross income of United States shareholders from foreign corporations 	Under federal law (IRC Section 951), if a foreign corporation is a controlled foreign corporation (CFC) for an uninterrupted period of 30 days or more during any taxable year, then U.S. shareholders who own stock in a CFC on the last day of the taxable year in which it was a CFC must include in gross income their pro rata share of income. The pro rata shares are included in the income of U.S. shareholders even though there may be intervening entities in a chain between a CFC and such shareholders. California has no similar provision.	Enter the amount of income received from a CFC and included in federal income on Schedule CA (540 or 540NR), line 17, column B.
Other Income		
<ul style="list-style-type: none"> Net Operating Loss (NOL) <ol style="list-style-type: none"> Disaster loss carryover Federal NOL deduction California NOL carryover NOL deduction from enterprise zones, program areas, LARZ or LAMBRA 	<p>The allowable California disaster loss carryover under California law is different than the allowable disaster loss carryover under federal law.</p> <p>Due to differences between federal and California law, you must refigure your NOL deduction for California purposes. You may be required to elect specific NOL characterization for California.</p> <p>The allowable NOL carryover under California law is different than the allowable NOL carryover under federal law. There is no NOL carryback under California law.</p> <p>Federal law has no comparable deduction.</p>	<p>Enter as a positive number on Schedule CA (540 or 540NR), line 21b, column B from your 1995 form FTB 3805V.</p> <p>Enter as a positive number on Schedule CA (540 or 540NR), line 21c, column C the federal NOL deduction. Also get form FTB 3805V, Net Operating Loss (NOL) Computation and Disaster Loss Limitations, to figure the allowable California NOL deduction.</p> <p>Use form FTB 3805V to figure the allowable California NOL deduction and enter the result as a positive number on Schedule CA (540 or 540NR), line 21d, column B.</p> <p>Use form FTB 3805Z, Enterprise Zone/Program Area Deduction and Credit Summary, form FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary or Form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary, to figure the NOL deduction.</p>
<ul style="list-style-type: none"> Original issue discount (OID) for debt instruments issued (and loans made) in 1985 and 1986 	In the tax year in which the debt instrument matures, is sold, exchanged or otherwise disposed of, you must recognize the difference between the amount reported on your federal return and the amount reported for California purposes.	<p>Issuer (debtor) – Enter the difference between the federal deductible amount and the California deductible amount on Schedule CA (540 or 540NR), line 21f, column B.</p> <p>Holder (lender) – Enter the difference between the amount included in federal gross income and the amount included for California purposes on Schedule CA (540 or 540NR), line 21f, column C.</p>
<ul style="list-style-type: none"> Income exempted by U.S. tax treaties 	California is not affected by U.S. treaties with foreign countries unless they specifically apply to state income taxes. If a treaty does not specifically exempt income from state income tax, California requires the reporting of adjusted gross income from all sources.	Adjust federal income to reflect worldwide income computed under California statutes. Enter losses from foreign sources on Schedule CA (540 or 540NR), line 21f, column B. Enter foreign source income on Schedule CA (540 or 540NR), line 21f, column C.
<ul style="list-style-type: none"> Foreign income of nonresident aliens 	Federal Form 1040NR, U.S. Nonresident Alien Income Tax Return requires that only United States source income be reported. California requires the reporting of adjusted gross income from all sources.	Adjust federal income to reflect worldwide income computed under California statutes. Enter losses from foreign sources on Schedule CA (540 or 540NR), line 21f, column B. Enter foreign source income on Schedule CA (540 or 540NR), line 21f, column C.
<ul style="list-style-type: none"> California lottery winnings 	California does not tax California lottery winnings. California does tax lottery winnings from other states.	Enter on Schedule CA (540 or 540NR), line 21a, column B, the amount of California lottery winnings included in adjusted gross income on your federal return.

ITEM	DIFFERENCES BETWEEN FEDERAL AND CALIFORNIA LAW	WHAT TO DO FOR CALIFORNIA
<ul style="list-style-type: none"> Income from a living benefit contract 	Federal law taxes income from lump-sum distributions or periodic payments from a "living benefit contract," or supplementary agreement that complies with the Insurance Code. California law does not tax that income.	Enter the amount of income received from a living benefit contract and included in federal return on Schedule CA (540 or 540NR), line 21f, column B.
<ul style="list-style-type: none"> Reward from a crime hotline 	California does not tax a reward authorized by a government agency and received from a crime hotline established by a government agency or nonprofit organization.	Enter on Schedule CA (540 or 540NR), line 21f, column B the amount of such a reward you included in adjusted gross income on your federal return.
<ul style="list-style-type: none"> Income received from a recycling center or location for empty beverage containers 	Federal law taxes beverage container recycling income. California law does not tax income received by a consumer for recycling empty beverage containers.	Enter the amount of beverage container recycling income reported on your federal return on Schedule CA (540 or 540NR), line 21f, column B.
<ul style="list-style-type: none"> Rebates from water agencies or suppliers 	Federal law taxes rebates received from water agencies or suppliers. California law does not tax those rebates.	Enter the amount of rebate received from water agencies or suppliers and included in federal income on Schedule CA (540 or 540NR), line 17, column B.
<ul style="list-style-type: none"> Foreign-earned income and housing expense exclusion 	Under federal law (IRC Section 911), a qualified individual may elect to exclude certain foreign-earned income and an employer-provided housing allowance. California has no similar provision.	Enter the amount of foreign-earned income and housing allowance under IRC Section 911 on Schedule CA (540 or 540NR), line 21f, column C.
<ul style="list-style-type: none"> Energy conservation subsidy from a public utility 	Federal law allows an exclusion from income for a subsidy provided directly or indirectly by a public utility for the purchase or installation of any energy conservation measure. California taxes amounts received after December 31, 1994.	Enter the amount excluded from federal income on Schedule CA (540 or 540NR), line 21f, column C.
<ul style="list-style-type: none"> Death benefit exclusion 	Beginning with tax year 1996, for decedents dying after August 20, 1996, federal law no longer allows the beneficiary or estate of a deceased employee to exclude up to \$5,000 in benefits paid by the employer. California does not conform to this provision.	Enter on Schedule CA (540 or 540NR), line 21f, column B, the death benefit included in federal income included in column A. This amount cannot exceed \$5,000.
Adjustments to Income		
<ul style="list-style-type: none"> Self-employed health insurance deduction 	California law and federal are the same for the self-employed health insurance deduction. However, the percentage of qualifying cost that may be deducted for California purposes is 25%. The federal percentage is 30%.	Use the worksheet in the instructions for Schedule CA (540 or 540NR), line 26 to figure the adjustment.
<ul style="list-style-type: none"> Alimony paid by a nonresident alien 	Alimony expense paid by a nonresident alien that was not deducted on the federal return is a deduction on the California return.	Enter the amount not included on the federal return on Schedule CA (540 or 540NR), line 29, column C.
Itemized Deductions		
<ul style="list-style-type: none"> Taxes <ol style="list-style-type: none"> Minimum tax paid by a limited partnership Franchise tax or income taxes paid by an S corporation State, local and foreign income taxes paid Other adjustments 	<p>Federal law allows a deduction for franchise taxes paid under the Bank and Corporation Tax Law. California specifically disallows this deduction.</p> <p>Federal law allows a deduction for franchise taxes or income taxes paid under the Bank and Corporation Tax Law. California specifically disallows this deduction.</p> <p>California does not allow a deduction for state, local or foreign income taxes paid, including amounts paid for State Disability Insurance (SDI) or Voluntary Plan Disability Insurance (VPDI).</p> <p>You may also have to make adjustments to itemized deductions for moving expense, adoption related expenses, mortgage interest credit, nontaxable income expense, employee business expense, investment interest expense, gambling losses, federal estate tax, generation skipping transfer tax, contribution of appreciated stock to a private foundation and state legislator's travel expense.</p>	<p>Add the amount of your federal deduction for franchise taxes paid to the amount on Schedule CA (540 or 540NR) line 34.</p> <p>Add the amount of your federal deduction for franchise taxes paid to the amount on Schedule CA (540 or 540NR) line 34.</p> <p>Add the amount of your federal deduction for state, local and foreign taxes paid to the amount on Schedule CA (540 or 540NR), line 34.</p> <p>See Schedule CA (540 or 540NR) for information.</p>